

# 2007 ANNUAL REVALUE REPORT

## KING COUNTY DEPARTMENT OF ASSESSMENTS HIGH-TECH/FLEX PROPERTIES



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# Executive Summary Report

**Appraisal Date 1/1/07 - 2007 Assessment Roll**

**Specialty Name:** High-Tech/Flex Properties

## Sales – Improved Analysis Summary

- Number of Sales: 17
- Range of Sales Dates: 07/04 - 10/06

<b>Sales – Ratio Study Summary:</b>				
	<b>Mean Assessed Value</b>	<b>Mean Sale Price</b>	<b>Ratio</b>	<b>COV*</b>
<b>2006 Value</b>	\$24,264,300	\$31,461,900	77.1%	18.91%
<b>2007 Value</b>	\$29,560,200	\$31,461,900	94.0%	7.68%
<b>Change</b>	\$5,295,900	0	16.90%	-11.23%
<b>% Change</b>	+21.82%	0%	+21.91%	-59.38%

\*COV is a measure of uniformity, the lower the number the better the uniformity. The negative figures of -11.23% (Change) and -59.38% (% Change) actually represent an improvement.

Sales used in Analysis: All sales verified as good were included in the analysis.

<b>Total Population - Parcel Summary Data:</b>			
	<b>Land</b>	<b>Imps</b>	<b>Total</b>
<b>2006 Value</b>	\$747,389,400	\$1,879,963,533	\$2,627,352,933
<b>2007 Value</b>	\$813,082,900	\$2,208,751,700	\$3,021,834,600
<b>Percent Change</b>	+8.79%	+17.49%	+15.01%

- Number of Parcels in the Population: **184**

## Conclusion and Recommendation:

Assessed values for the 2007 revalue have increased on average of 15.01%.

The total number of the sales sample is noted to be low for standard regression analysis, however since the values recommended in this report improve uniformity, assessment level and equity, we recommend posting them for the 2007 Assessment Roll.

Six new sales of High-Tech/Flex properties occurred in 2005. While rents and vacancies have remained relatively stable from the previous year, capitalization rates have reached record lows. Falling interest rates and demand from investors moving funds from the stock market to more secured real estate investments has led to the drop in capitalization rates. There continues to be demand for High-Tech/Flex properties, and as a result, sales prices have risen.

## ***Analysis Process***

### ***Specialty Area 510***

High-Tech/Flex Properties

#### ***Highest and Best Use Analysis***

**As if vacant:** Market analyses of the area, together with current zoning and current and anticipated use patterns, indicate the highest and best use of the land.

**As if improved:** Based on neighborhood trends, both demographic and current development patterns, the existing buildings represent the highest and best use of most sites. The existing use will continue until land value, in its highest and best use, exceeds the sum of value of the entire property in its existing use and the cost to remove the improvements. We find that the current improvements do add value to the property, in most cases, and therefore are the highest and best use of the property as improved. In those properties where the property is not at its highest and best use a token value of \$1,000 is assigned to the improvements.

#### ***Special Assumptions, Departures and Limiting Conditions***

The sales comparison, income and cost approaches to value were considered for this mass appraisal valuation.

The following Departmental guidelines were considered and adhered to:

- Sales from 7/2004 to 10/2006 (at minimum) were considered in the analyses.
- No market trends (market condition adjustments, time adjustments) were applied to sales prices. Models were developed without market trends. The utilization of multiple years of market information without time adjustments averaged any changes over that time period.
- This report intends to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

## ***Identification of the Area***

- Name or Designation: High-Tech/Flex Properties
- Boundaries: The properties are located throughout King County but are predominantly situated between Redmond and Bothell/North Creek.

### ***Maps:***

A GIS map of the entire area is included in this report. More detailed Assessor's maps are located on the 7th floor of the King County Administration Building.

### ***Property Description:***

The High-Tech/Flex Specialty properties are defined as buildings that include a combination of warehouse, light industrial use, and/or office area. The occupants tend to be engaged in a variety of High-Tech enterprises that may include computer software and hardware, telecommunications, medical instrumentations, and corporate offices. The corporate offices of Microsoft, Nintendo, Safeco, and Eddie Bauer are included. The typical building often includes general offices, assembly areas, and/or computer rooms, and generally run above a 40% build-out ratio. The buildings tend to be of higher quality finish and may have multiple fiber optic lines with additional power, mechanical, and communications facilities than are found in typical office buildings or business park/flex buildings.

### ***Area Description:***

The concentrations of the High-Tech/Flex buildings are located within the Redmond (Close-in, Willows, & Overlake) and Bothell (North Creek) market areas with a scattering of properties around King County (Auburn, Bellevue, Federal Way, Kent, Kirkland, Issaquah, & Woodinville). Within the High-Tech/Flex specialty assignment (Area 510), there are seven neighborhoods (Neighborhoods 10 through 70) totaling 184 parcels that have been established for valuation purposes.

#### **Neighborhood 510-10:**

Neighborhood 510-10 is defined as those High-Tech/Flex buildings located within the Bothell (North Creek) and Woodinville neighborhoods. Within geographic area 510-10, there are 23 parcels that are part of the High-Tech/Flex specialty.

#### **Neighborhood 510-20:**

Neighborhood 510-20 is defined as those High-Tech/Flex buildings located within the Redmond (Close-In & Marymoor Park) neighborhoods. Within geographic area 510-20, there are 44 parcels that are part of the High-Tech/Flex specialty.

#### **Neighborhood 510-30:**

Neighborhood 510-30 is defined as those High-Tech/Flex buildings located within the Redmond (Willows Corridor) neighborhood. Within geographic area 510-30, there are 38 parcels that are part of the High-Tech/Flex specialty.

#### **Neighborhood 510-40:**

Neighborhood 510-40 is defined as those High-Tech/Flex buildings located within Kirkland (Totem Lake) neighborhood. Within geographic area 510-40, there are 18 parcels that are part of the High-Tech/Flex specialty.

**Neighborhood 510-50:**

Neighborhood 510-50 is defined as those High-Tech/Flex buildings located within the Redmond (Overlake) and Bellevue (SR-520 & I-90 Corridor) neighborhoods. Within geographic area 510-50, there are 44 parcels that are part of the High-Tech/Flex specialty.

**Neighborhood 510-60:**

Neighborhood 510-60 is defined as those High-Tech/Flex buildings located within the Issaquah neighborhood. Within geographic area 510-60, there are 5 parcels that are part of the High-Tech/Flex specialty.

**Neighborhood 510-70:**

Neighborhood 510-70 is defined as those High-Tech/Flex buildings located within the Seattle, Kent, Auburn, Tukwila, and Federal Way neighborhoods. Within geographic area 520-70, there are 12 parcels that are part of the High-Tech/Flex specialty.

***Economic Considerations:***

During the past five years, the Puget Sound real estate market place had been very active. The eastside market area (Bellevue, Kirkland, Redmond, Woodinville, and Issaquah), especially, experienced rapidly appreciating property values unprecedented in recent memory. This growth was spurred on by new high-tech “dot-com.” startup companies, along with an increasing presence in software, service industries, finance, and aerospace.

During 2002/2003, the Puget Sound economy, along with the national economy, dipped into a moderate recession. The September 11<sup>th</sup> terrorist attacks on the WTC did not help the economy either, and may have prolonged the recession. In 2004 & 2005, the economy experienced dramatic improvement from the previous two years. Overall lease rates stabilized with vacancies on the decline. During this period, capitalization rates reached record lows. Falling interest rates and demand from investors moving funds from the stock market to more secured real estate investments led to the drop in capitalization rates.

For this revalue period, the High-Tech/Flex industry continues to improve. With respect to the Eastside technology market (majority of High-Tech/Flex properties), overall lease rates have shifted from a stabilization period to where rents are on the increase. Vacancy rates have also seen an improvement from the previous year (See Table Below).

<i>Eastside Market Vacancy</i>				
<i>Source</i>	<i>Eastside Market Area</i>	<i>4<sup>th</sup> Qtr. 2005 Direct Vacancy</i>	<i>4<sup>th</sup> Qtr. 2006 Direct Vacancy</i>	<i>Change (+/-)</i>
<i>Colliers International</i>	<i>Overall Office</i>	7.61%	6.08%	- 1.53%
	<i>Overall Industrial</i>	11.55%	7.48%	- 4.07%
<i>Cushman &amp; Wakefield</i>	<i>Overall Office (Suburban)</i>	8.90%	6.50%	- 2.40%
	<i>Overall Industrial (Suburban)</i>	8.20%	7.80%	- .40%
<i>CB Richard Ellis</i>	<i>Overall Office</i>	8.04%	7.85%	- .19%
	<i>Overall Industrial</i>	13.31%	11.00%	- 2.31%

With the high demand for real estate within the Puget Sound market area, along with continued low interest rates, capitalization rates have remained low (See Table Below).

<b>Local - Seattle Metropolitan Area Cap Rates</b>					
<i>Source</i>	<i>Date</i>	<i>Location</i>	<i>Type</i>	<i>Average</i>	<i>Remarks</i>
<b>Integra Realty Resources – Viewpoint 2007</b>	01/01/06 to 12/01/06	Seattle	Suburban Office	6.50%	Down from 7.00% at the end of 2005
			CBD Office	6.00%	Going-in cap rate – Down from 6.50% 1 yr earlier
			Office/Whse.	6.50%	Down from 7.00% at the end of 2005
			R&D	7.50%	Down from 8.25% at the end of 2005
<b>American Council of Life Insurance (Commercial Mortgage Commitments)</b>	YTD 2006	Seattle/Bellevue/Everett	Office	7.00%	
	YTD 2006		Office	7.40%	Loan Size: \$5 million - \$14,999(000)
	YTD 2006		Office	7.10%	Loan Size: \$15 million - \$24,999(000)
	YTD 2006		Office	6.70%	Loan Size: \$25 million and over
	YTD 2006		Industrial	7.20%	
	YTD 2006		Industrial	7.50%	Loan Size: \$5 million - \$14,999(000)
	YTD 2006		Industrial	7.00%	Loan Size: \$15 million - \$24,999(000)
	YTD 2006		Industrial	7.10%	Loan Size: \$25 million and over
<b>Real Capital Analytics</b>	1 <sup>st</sup> Qtr. 2007	Seattle Metropolitan Area	CBD Office	6.90%	Sale Amount: \$5 million - \$15 million
			CBD Office	6.70%	Sale Amount: \$15 million - \$50 million
			CBD Office	6.10%	Sale Amount: Over \$50 million
			Sub. Office	6.70%	Sale Amount: \$5 million - \$15 million
			Sub. Office	6.30%	Sale Amount: \$15 million - \$50 million
			Sub. Office	6.00%	Sale Amount: Over \$50 million
<b>CBRE &amp; CoStar</b>	3 <sup>rd</sup> Qtr. 2006	King County	Office	6.00%	Down from 7% at the end of 2005
			Industrial	7.00%	Down from 7.13% at the end of 2005
<b>Broderick Group</b>	4 <sup>th</sup> Qt. 2006	Seattle/Esatside Office/High-Tech Mkts.	Office	6.23%	Weighted Average for all office product types – down from 7.3% in 2005.
<b>Colliers Office R.E Highlights</b>	4 <sup>th</sup> Qtr. 2006	Seattle Metropolitan Area	CBD Office	6.50%	Avg. Sales of \$365/SF – Class A Gross Rent Range of \$26.50 - \$35.00/SF (As of June 06)
			Sub. Office	6.25%	Avg. Sales of \$200/SF – Class A Gross Rent Range of \$24.40 - \$34.00/SF (As of June 06)

There continues to be demand for High-Tech/Flex properties, and as a result, sales prices have risen. Some notable sales that have occurred since 2004 include:

<b>Notable High-Tech/Flex Sales</b>				
<b>Building Name</b>	<b>Sales Price</b>	<b>Sale Date</b>	<b>Bldg. Sq.Ft.</b>	<b>Price Sq.Ft.</b>
<i>Former Eddie Bauer Bldg.</i>	<i>\$38,000,000</i>	<i>08/10/2004</i>	<i>248,244</i>	<i>\$153.07</i>
<i>North-Creek Corporate Center</i>	<i>\$16,750,000</i>	<i>06/04/2005</i>	<i>96,035</i>	<i>\$174.42</i>
<i>West Willows Tech Center</i>	<i>\$34,050,000</i>	<i>08/11/2005</i>	<i>162,273</i>	<i>\$209.83</i>
<i>West Park</i>	<i>\$111,000,000</i>	<i>12/15/2005</i>	<i>767,486</i>	<i>\$144.63</i>
<i>Quadrant Willows Corp. Center</i>	<i>\$13,350,000</i>	<i>12/21/2005</i>	<i>72,000</i>	<i>\$185.42</i>
<i>Redmond Woods</i>	<i>\$27,836,645</i>	<i>03/29/2006</i>	<i>170,470</i>	<i>\$190.33</i>
<i>Former Safeco Campus</i>	<i>\$207,600,000</i>	<i>05/31/2006</i>	<i>812,196</i>	<i>\$271.49</i>
<i>Bear Creek Corp. Center</i>	<i>\$39,841,508</i>	<i>07/17/2006</i>	<i>167,156</i>	<i>\$238.35</i>
<i>Millennium Corp. Park</i>	<i>\$139,000,000</i>	<i>10/03/2006</i>	<i>549,694</i>	<i>\$252.87</i>

**Development Activity:** Microsoft recently announced that it will expand its campuses by one-third during the next three years. In May 2005, the City of Redmond approved Microsoft Corporation's 20-year campus development agreement, which allows Microsoft's Main and West campus to expand by 2,195,488 square feet. Microsoft will execute roughly half of the development agreement by 2009. Under work to be completed over the next three years, Microsoft is adding a total of 3.1 million square feet of office space, which includes 7 new buildings, 7 acquired buildings, and additional lease space. The recently acquired buildings include the former Redmond offices of Eddie Bauer and Safeco. The capacity for all of this added space will be approximately 12,000 people. Microsoft is currently excavating one of the largest underground parking garages in the U.S. The parking garage will hold approximately 5,000 vehicles on its Redmond campus. Stretching between Northeast 36th and 40<sup>th</sup>, west of Highway 520, the huge parking garage will primarily serve workers in four buildings planned for the area immediately around it, as well as others nearby. The underground garage is scheduled to be completed by mid-2008.

<b>Major Microsoft Projects Currently Under Construction</b>		
<b>Building Name</b>	<b>Status</b>	<b>Bldg. Sq.Ft.</b>
• <i>Building #99</i>	<i>Under Construction</i>	<i>266,014</i>
• <i>Building #99 Garage</i>	<i>Under Construction</i>	<i>409,835</i>
• <i>Building #7</i>	<i>Under Construction</i>	<i>266,014</i>
• <i>Building #7 Garage</i>	<i>Under Construction</i>	<i>346,472</i>
• <i>Demolition of Building #100, #101, #102, and adjacent Business Park to develop three new office Buildings (Bldg. #95, #96, &amp; #97) and one large supporting parking garage. Part of this development will include altering 150<sup>th</sup> Avenue NE.</i>	<i>Bldg. demolition, site excavation, and street reconfiguration in progress</i>	<i>N/A</i>

**Physical Inspection Area:**

- Approximately 20.10% of the High-Tech/Flex parcels in King County were inspected.

- The physical inspection area for the 2007 revalue included those Microsoft High-Tech/Flex properties located in Neighborhood 50.

### ***Preliminary Ratio Analysis***

- A Preliminary Ratio Study was done on 06-27-2007.
- The study included sales of improved parcels and showed a COV of 18.91%.
- A Ratio Study was completed after deriving the 2007 assessment year values. The results are included in the validation section of this report and show an improvement in the COV from the previous rate of 18.91% to a new rate of 7.68%.

### ***Land Value:***

#### ***Land Sales, Analysis, Conclusion***

The respective geographic appraisers valued all land.

A list of vacant sales used and those considered not reflective of market are included in the geographic appraiser's reports.

### ***Improved Parcel Total Values:***

#### ***Sales Comparison Approach Model Description***

The model for sales comparison was based on several data sources from the Assessor's records including LUC (land use code), net rentable area, effective year, condition, and sales price/ rentable area. A search was made on data that most closely fit a subject property within each geographic area. All sales were verified when possible by calling the purchaser, seller or agent, inquiring in the field, or using the CoStar COMPS services. Characteristic data was verified for all sales if possible. A list of the sales are included within this report.

#### ***Sales Comparison Calibration***

After an initial search for comparable sales within each geographic area, a search is made in neighboring areas and expanded to include all of King County if necessary.

#### ***Cost Approach Model Description***

A cost approach was available using the Marshall & Swift Commercial Estimator. Depreciation was also based on studies done by Marshall & Swift Valuation Service. The cost was adjusted to the western region and the Seattle area.

#### ***Cost Calibration***

Each appraiser valuing by cost can individually calibrate Marshall-Swift valuations to specific buildings in our area by accessing the parcel computerized valuation model supplied by Marshall & Swift.

### ***Income Capitalization Approach Model Description***

The specialty properties are located throughout King County with the concentration falling between Redmond and Bothell, generally referred to as the Technology Corridor. A map showing the Specialty Property sites is included within this report.

The income tables within this area summary report are included to demonstrate typical income parameters (Rents, Vacancy, Expenses, Cap. Rates) used for High-Tech / Flex buildings. The individual property valuation analysis for the High-Tech specialty is available within the Assessor's records. The models that are used for this revaluation are based on the building size parameters specific to the specialty and are dependent on effective age and quality data. Vacancy rate, expense rate and capitalization rate ranges were interpolated from data obtained from the market.

### ***Income Approach Calibration***

The models were calibrated after setting the base rents by using adjustments based on size, effective age, construction class and quality as recorded in the Assessor's records. Properties were valued based on the income tables included within this report. The individual property valuation information is available within Assessor records. Additional factors considered were excess land, economic units, or unique features with the property.

Income: Income parameters were derived from the market place through the listed fair market sales as well as through published sources (i.e. Office Space Dot.Com, Commercial Brokers Association, Costar, Multiple Corporate Real Estate Websites), and opinions expressed by real estate professionals active in the market. Within the income valuation models, the assessor used triple net leases to estimate the assessed value.

Vacancy: Vacancy rates used were derived mainly from published sources tempered by personal observation.

Expenses: Expense ratios were estimated based on industry standards, published sources, and personal knowledge of the area's rental practices. Within our income valuation models, the assessor used triple net expenses to estimate the assessed value.

Capitalization Rates: The range of capitalization rates used in the assessors income valuation models (tables) reflect the building quality and competitiveness with the lower rates applied to the higher quality high-tech buildings. Higher rates are applied to the lesser quality high-tech buildings or to properties that have higher than the normal sub-market vacancy, substantial sub-lease vacancy, or physical issues that require additional capital investment.

Capitalization rates were determined by personal analysis of the sales in the area on sold properties where there was income information available, and local published market surveys, such as CoStar, Real Estate Analytics, The American Council of Insurance Adjustors, Colliers International, Integra Realty Resources, and Korpaz. Other national reports include; Grubb & Ellis Capital Mkt. Update, Emerging Trends in Real Estate, Urban Land Institute, and Cushman & Wakefield – 16<sup>th</sup> Annual Real Estate Trends. (Table on Page 7 shows local cap rate sources used by the assessor.)

***AREA 510-10 – Bothell / Woodinville***

Land Use:	Rent Range per Sq.Ft.	Vacancy/Coll. Loss %	Expense Rate/%	Capitalization Rate %
Open Office/Mezz. Office/Whse. Office	\$12.60 to \$16.80	12%	7.50%	6.75% to 8.75%
Industrial Engineering Space	\$9.00 to \$12.90	12%	7.50%	6.75% to 8.75%
Storage Whse. / Mezz. Stor.	\$5.40 to \$9.00	12%	7.50%	6.75% to 8.75%

The rental rates per square foot range from \$12.60 to \$16.80 for the office space, \$9.00 to \$12.90 for the Industrial Engineering Space, and \$5.40 to \$9.00 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 12%, with operating expenses estimated at 7.50%, and capitalization rates ranging from 6.75% to 8.75%.

***AREA 510-20 – Redmond Close-In / Marymoor***

Land Use:	Rent Range per Sq.Ft.	Vacancy/Coll. Loss %	Expense Rate/%	Capitalization Rate %
Open Office/Mezz. Office/Whse. Office	\$10.00 to \$18.00	12%	7.50%	6.50% to 9.00%
Industrial Engineering Space	\$7.40 to \$13.50	12%	7.50%	6.50% to 9.00%
Storage Whse. / Mezz. Stor.	\$4.80 to \$9.00	12%	7.50%	6.50% to 9.00%

The rental rates per square foot range from \$10.00 to \$18.00 for the office space, \$7.40 to \$13.50 for the Industrial Engineering Space, and \$4.80 to \$9.00 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 12%, with operating expenses estimated at 7.50%, and capitalization rates ranging from 6.50% to 9.00%.

***AREA 510-30 – Willows Corridor***

Land Use:	Rent Range per Sq.Ft.	Vacancy/Coll. Loss %	Expense Rate/%	Capitalization Rate %
Open Office/Mezz. Office/Whse. Office	\$12.60 to \$17.40	12%	7.50%	7.00% to 9.00%
Industrial Engineering Space	\$9.00 to \$13.20	12%	7.50%	7.00% to 9.00%
Storage Whse. / Mezz. Stor.	\$5.40 to \$9.00	12%	7.50%	7.00% to 9.00%

The rental rates per square foot range from \$12.60 to \$17.40 for the office space, \$9.00 to \$13.20 for the Industrial Engineering Space, and \$5.40 to \$9.00 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 12%, with operating expenses estimated at 7.50%, and capitalization rates ranging from 7.00% to 9.00%.

**AREA 510-40 – Kirkland / Totem Lake**

Land Use:	Rent Range per Sq.Ft.	Vacancy/Coll. Loss %	Expense Rate/%	Capitalization Rate %
Open Office/Mezz. Office/Whse. Office	\$12.00 to \$17.00	15%	7.50%	6.75% to 8.75%
Industrial Engineering Space	\$8.70 to \$13.00	15%	7.50%	6.75% to 8.75%
Storage Whse. / Mezz. Stor.	\$5.40 to \$9.00	15%	7.50%	6.75% to 8.75%

The rental rates per square foot range from \$12.00 to \$17.00 for the office space, \$8.70 to \$13.00 for the Industrial Engineering Space, and \$5.40 to \$9.00 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 15%, with operating expenses estimated at 7.50%, and capitalization rates ranging from 6.75% to 8.75%.

**AREA 510-50 – Overlake / Bellevue**

Land Use:	Rent Range per Sq.Ft.	Vacancy/Coll. Loss %	Expense Rate/%	Capitalization Rate %
Open Office/Mezz. Office/Whse. Office	\$12.60 to \$16.00	5%	7.50%	7.00% to 9.00%
Industrial Engineering Space	\$9.00 to \$12.10	5%	7.50%	7.00% to 9.00%
Storage Whse. / Mezz. Stor.	\$5.40 to \$8.20	5%	7.50%	7.00% to 9.00%

The rental rates per square foot range from \$12.60 to \$16.00 for the office space, \$9.00 to \$12.10 for the Industrial Engineering Space, and \$5.40 to \$8.20 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 5%, with operating expenses estimated at 7.50%, and capitalization rates ranging from 7.00% to 9.00%.

**AREA 510-60 – Issaquah**

Land Use:	Rent Range per Sq.Ft.	Vacancy/Coll. Loss %	Expense Rate/%	Capitalization Rate %
Open Office/Mezz. Office/Whse. Office	\$12.00 to \$18.00	8%	7.50%	6.50% to 9.00%
Industrial Engineering Space	\$9.50 to \$13.00	8%	7.50%	6.50% to 9.00%
Storage Whse. / Mezz. Stor.	\$5.40 to \$8.00	8%	7.50%	6.50% to 9.00%

The rental rates per square foot range from \$12.00 to \$18.00 for the office space, \$9.50 to \$13.00 for the Industrial Engineering Space, and \$5.40 to \$8.00 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 8%, with operating expenses estimated at 7.50%, and capitalization rates ranging from 6.50% to 9.00%.

## **AREA 510-70 – South King County**

<b>Land Use:</b>	<b>Rent Range per Sq.Ft.</b>	<b>Vacancy/Coll. Loss %</b>	<b>Expense Rate/%</b>	<b>Capitalization Rate %</b>
<b>Open Office/Whse. Office</b>	\$10.20 to \$15.00	10%	8%	7.00% to 9.00%
<b>Mezz. Office</b>	\$6.00 to \$10.00	10%	8%	7.00% to 9.00%
<b>Industrial Engineering Space</b>	\$6.00 to \$10.00	10%	8%	7.00% to 9.00%
<b>Storage Whse. / Mezz. Stor.</b>	\$4.20 to \$7.20	10%	8%	7.00% to 9.00%

The rental rates per square foot range from \$10.20 to \$15.00 for the office space, \$6.00 to \$10.00 for the mezz. office space, \$6.00 to \$10.00 for the Industrial Engineering Space, and \$4.20 to \$7.20 per square foot for the warehouse space. Vacancy and Collection Loss was estimated at 10%, with operating expenses estimated at 8%, and capitalization rates ranging from 7.50% to 9.00%.

### ***Reconciliation and or validation study of calibrated value models including ratio study of hold out samples.***

The values for all parcels were individually reviewed by the speciality appraiser before the final value was selected.

## **MODEL VALIDATION**

### ***Total Value Conclusions, Recommendations and Validation:***

Appraiser judgment prevails in all decisions regarding individual parcel valuation. Each parcel is reviewed and a value selected based on general and specific data pertaining to the parcel, the neighborhood, and the market. The Appraiser determines which available value estimate may be appropriate and may adjust particular characteristics and conditions as they occur in the valuation area.

*The Specialty Appraiser recommends application of the Appraiser selected values, as indicated by the appropriate model or method.*

The new assessment level is 94.0%. The standard statistical measures of valuation performance are all within IAAO guidelines and are presented both in the Executive Summary and in the 2006 and 2007 Ratio Analysis charts included in this report.

The total assessed value for the 2006 assessment year for Specialty Area 510 was \$2,627,352,933. The total recommended assessed value for the 2007 assessment year is \$3,021,834,600.

Application of these recommended values for the 2007 assessment year resulted in an average total change from the 2006 assessments of +15.01%.

	<b><i>2006 Total</i></b>	<b><i>2007 Total</i></b>	<b><i>\$ Increase</i></b>	<b><i>% Change</i></b>
<b><i>Total Value</i></b>	\$2,627,352,933	\$3,021,834,600	\$394,481,667	+15.01%

This increase is due in part to changes in the return of investment expected by investors, the increase in demand for commercial real estate properties for investment purposes, since last year, and the previous assessment levels.

## USPAP Compliance

### ***Client and Intended Use of the Appraisal:***

*This mass appraisal report is intended for use only by the King County Assessor and other agencies or departments administering or confirming ad valorem property taxes. Use of this report by others is not intended by the appraiser. The use of this appraisal, analyses and conclusions is limited to the administration of ad valorem property taxes in accordance with Washington State law. As such it is written in concise form to minimize paperwork. The assessor intends that this report conform to the Uniform Standards of Professional Appraisal Practice (USPAP) requirements for a mass appraisal report as stated in USPAP SR 6-8. To fully understand this report the reader may need to refer to the Assessor's Property Record Files, Assessors Real Property Data Base, separate studies, Assessor's Procedures, Assessor's field maps, Revalue Plan and the statutes.*

*The purpose of this report is to explain and document the methods, data and analysis used in the revaluation of King County. King County is on a six year physical inspection cycle with annual statistical updates. The revaluation plan is approved by Washington State Department of Revenue. The revaluation plan is subject to their periodic review.*

### ***Definition and date of value estimate:***

#### **Market Value**

*The basis of all assessments is the true and fair value of property. True and fair value means market value (Spokane etc. R. Company v. Spokane County, 75 Wash. 72 (1913); Mason County Overtaxed, Inc. v. Mason County, 62 Wn. 2d (1963); AGO 57-58, No. 2, 1/8/57; AGO 65-66, No. 65, 12/31/65) . . . or amount of money a buyer willing but not obligated to buy would pay for it to a seller willing but not obligated to sell. In arriving at a determination of such value, the assessing officer can consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and he must consider all of such factors. (AGO 65,66, No. 65, 12/31/65)*

#### **Highest and Best Use**

WAC 458-07-030 (3) REAL PROPERTY VALUATION—HIGHEST AND BEST USE.

**True and fair value -- Highest and best use.** *Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be taken into consideration. Uses that are within the realm of possibility, but not reasonably probable of occurrence, shall not be considered in valuing property at its highest and best use.*

*If a property is particularly adapted to some particular use this fact may be taken into consideration in estimating the highest and best use. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922)) The present use of the property may constitute its highest and best use. The appraiser shall, however, consider the uses to which similar property similarly located is being put. (Finch v. Grays Harbor County, 121 Wash. 486 (1922)) The fact that the owner of the property chooses to use it for less productive purposes than similar land is being used shall be ignored in the highest and best use estimate. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))*

*Where land has been classified or zoned as to its use, the county assessor may consider this fact, but he shall not be bound to such zoning in exercising his judgment as to the highest and best use of the property. (AGO 63-64, No. 107, 6/6/64)*

*'Highest and best use' is defined in The Appraisal of Real Estate, twelfth edition, page 305, as follows:*

*"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value."*

### **Date of Value Estimate**

*All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, excepting such as is exempted from taxation by law. [1961 c 15 §84.36.005]*

*The county assessor is authorized to place any property that is increased in value due to construction or alteration for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits on the assessment rolls for the purposes of tax levy up to August 31st of each year. The assessed valuation of the property shall be considered as of July 31st of that year. [1989 c 246 § 4]*

*Reference should be made to the property card or computer file as to when each property was valued. Sales consummating before and after the appraisal date may be used and are analyzed as to their indication of value at the date a valuation. If market conditions have changed then the appraisal will state a logical cutoff date after which no market date is used as an indicator of value.*

### **Property rights appraised:**

#### **Fee Simple**

*The definition of fee simple estate as taken from The Third Edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute. "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."*

### **Assumptions and Limiting Conditions:**

- 1. No opinion as to title is rendered. Data on ownership and legal description were obtained from public records. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions unless shown on maps or property record files. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.*
- 2. No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.*
- 3. No responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.*
- 4. Rental areas herein discussed have been calculated in accord with generally accepted industry standards.*
- 5. The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short term supply demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.*
- 6. The property is assumed uncontaminated unless the owner comes forward to the Assessor and provides other information.*

7. *The appraiser is not qualified to detect the existence of potentially hazardous material which may or may not be present on or near the property. The existence of such substances may have an effect on the value of the property. No consideration has been given in this analysis to any potential diminution in value should such hazardous materials be found (unless specifically noted). We urge the taxpayer to retain an expert in the field and submit data affecting value to the assessor.*
8. *No opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers for ad valorem tax purposes, although such matters may be discussed in the report.*
9. *Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.*
10. *The appraisal is the valuation of the fee simple interest. Unless shown on the Assessor's parcel maps, or otherwise in the Assessor's database, easements adversely affecting property value were not considered.*
11. *An attempt to segregate personal property from the real estate in this appraisal has been made.*
12. *Items which are considered "typical finish" and generally included in a real property transfer, but are legally considered leasehold improvements, are included in the valuation unless otherwise noted.*
13. *The movable equipment and/or fixtures have not been appraised as part of the real estate. The identifiable permanently fixed equipment has been appraised in accordance with RCW 84.04.090 and WAC 458-12-010.*
14. *I have considered the effect of value of those anticipated public and private improvements of which I have common knowledge. I can make no special effort to contact the various jurisdictions to determine the extent of their public improvements.*
15. *Exterior inspections were made of all properties in the physical inspection areas (outlined in the body of the report) however; due to lack of access and time few received interior inspections.*

### ***Scope Of Work Performed:***

*Research and analyses performed are identified in the body of the revaluation report. The assessor has no access to title reports and other documents. Because of legal limitations we did not research such items as easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations and special assessments. Disclosure of interior home features and, actual income and expenses by property owners is not a requirement of the law therefore attempts to obtain and analyze this information are not always successful. The mass appraisal performed must be completed in the time limits indicated in the Revaluation Plan and as budgeted. The scope of work performed and disclosure of research and analyses not performed are identified throughout the body of the report.*

## **CERTIFICATION:**

*I certify that, to the best of my knowledge and belief:*

- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of this report or to the parties involved.*
- *My engagement in this assignment was not contingent upon developing or reporting predetermined results.*
- *My compensation for completing this assignment is not contingent upon the development or reporting of predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.*
- *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- *The area(s) physically inspected for purposes of this revaluation are outlined in the body of this report.*
- *The individuals listed below were part of the “appraisal team” and provided significant real property appraisal assistance to the person signing this certification.*

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Appraiser

## 2006 Assessment Year

Quadrant/Crew:	Lien Date:	Date:	Sales Dates:												
East Crew	1/1/2006	6/27/2007	7/12/04 - 10/03/06												
Area	Appr ID:	Prop Type:	Trend used?: Y / N												
510	STRO	Improvement	N												
SAMPLE STATISTICS															
Sample size (n)	17	<div><div>Ratio Frequency</div><table><thead><tr><th>Ratio</th><th>Frequency</th></tr></thead><tbody><tr><td>0.6</td><td>3</td></tr><tr><td>0.7</td><td>2</td></tr><tr><td>0.8</td><td>1</td></tr><tr><td>0.9</td><td>4</td></tr><tr><td>1.0</td><td>7</td></tr></tbody></table></div>		Ratio	Frequency	0.6	3	0.7	2	0.8	1	0.9	4	1.0	7
Ratio	Frequency														
0.6	3														
0.7	2														
0.8	1														
0.9	4														
1.0	7														
Mean Assessed Value	24,264,300														
Mean Sales Price	31,461,900														
Standard Deviation AV	27,757,628														
Standard Deviation SP	37,487,474														
ASSESSMENT LEVEL															
Arithmetic mean ratio	0.829	<div>These figures reflect measurements <u>before</u> posting new values.</div>													
Median Ratio	0.881														
Weighted Mean Ratio	0.771														
UNIFORMITY															
Lowest ratio	0.5370														
Highest ratio:	0.9989														
Coefficient of Dispersion	13.96%														
Standard Deviation	0.1569														
Coefficient of Variation	18.91%														
Price-related Differential	1.08														
RELIABILITY															
95% Confidence: Median															
Lower limit	0.687														
Upper limit	0.983														
95% Confidence: Mean															
Lower limit	0.755														
Upper limit	0.904														
SAMPLE SIZE EVALUATION															
N (population size)	184														
B (acceptable error - in decimal)	0.05														
S (estimated from this sample)	0.1569														
Recommended minimum:	33														
Actual sample size:	17														
Conclusion:	Uh-oh														
NORMALITY															
Binomial Test															
# ratios below mean:	6														
# ratios above mean:	11														
z:	0.9701425														
Conclusion:	Normal*														
*i.e., no evidence of non-normality															

## 2007 Assessment Year

Quadrant/Crew:	Lien Date:	Date:	Sales Dates:										
East Crew	1/1/2007	6/27/2007	7/12/04 - 10/03/06										
Area	Appr ID:	Prop Type:	Trend used?: Y / N										
510	STRO	Improvement	N										
SAMPLE STATISTICS													
Sample size (n)	17	<div>Ratio Frequency</div> <table><thead><tr><th>Ratio</th><th>Frequency</th></tr></thead><tbody><tr><td>0.9</td><td>3</td></tr><tr><td>1.0</td><td>10</td></tr><tr><td>1.1</td><td>3</td></tr><tr><td>1.2</td><td>1</td></tr></tbody></table>		Ratio	Frequency	0.9	3	1.0	10	1.1	3	1.2	1
Ratio	Frequency												
0.9	3												
1.0	10												
1.1	3												
1.2	1												
Mean Assessed Value	29,560,200												
Mean Sales Price	31,461,900												
Standard Deviation AV	34,403,275												
Standard Deviation SP	37,487,474												
ASSESSMENT LEVEL													
Arithmetic mean ratio	0.971												
Median Ratio	0.966												
Weighted Mean Ratio	0.940												
UNIFORMITY													
Lowest ratio	0.8599												
Highest ratio:	1.1533												
Coeffient of Dispersion	5.51%												
Standard Deviation	0.0746												
Coefficient of Variation	7.68%												
Price-related Differential	1.03												
RELIABILITY													
95% Confidence: Median													
Lower limit	0.909												
Upper limit	1.050	These figures reflect measurements <u>after</u> posting new values.											
95% Confidence: Mean													
Lower limit	0.935												
Upper limit	1.006												
SAMPLE SIZE EVALUATION													
N (population size)	184												
B (acceptable error - in decimal)	0.05												
S (estimated from this sample)	0.0746												
Recommended minimum:	9												
Actual sample size:	17												
Conclusion:	OK												
NORMALITY													
Binomial Test													
# ratios below mean:	11												
# ratios above mean:	6												
z:	0.9701425												
Conclusion:	Normal*												
*i.e., no evidence of non-normality													

***Improvement Sales for Area 510 with Sales Used***

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
510	020	553040	0010	549,694	2241134	\$139,000,000	10/03/06	\$252.87	MILLENNIUM CORPORATE PARK BLDGS	BP	4	Y	
510	010	392700	0050	97,216	2226631	\$16,000,000	07/18/06	\$164.58	NORTH CREEK CENTER	R-AC, O	1	Y	
510	020	062310	0010	167,156	2222624	\$39,841,508	07/18/06	\$238.35	BEAR CK BUS PK-BLDG "A & "B"	BP	2	Y	
510	050	109910	0005	146,991	2216177	\$20,200,000	06/22/06	\$137.42	TELEDESIC	LI	2	Y	
510	050	750311	0010	812,196	2210376	\$220,500,000 \$207,600,000 \$198,951,000	05/31/06	\$271.49 \$255.60 \$244.95	FORMER SAFECO CAMPUS	OV	4	Y (26)	\$220,500,000 (\$271.49/sf) includes \$11mill. as an early vacancy contingency + \$1.9 mill in dev. rights. \$207,600,000 (\$255.60/sf) represents all real estate minus vacancy contingency and dev. Rights. \$198,951,000 (\$244.95) represents sales price of improvements only minus assessed land value of vacant parcel (#0050) all real Imp changed after sale; not in ratio
510	040	389060	0030	195,807	2209008	\$34,848,500	05/24/06	\$177.97	KIRKLAND 405 CORP CTR BLDG B	TL 10A	6	Y	
510	020	719895	0090	30,902	2199426	\$3,750,000	04/13/06	\$121.35	REDMOND EAST BUS CAMPUS BLDG #11	MP	1	Y	
510	050	142505	9020	146,255	2195549	\$27,836,645	03/29/06	\$190.33	REDMOND WOODS	OV	1	Y	
510	040	332605	9243	51,584	2188014	\$7,250,000	02/21/06	\$140.55	Pacific Systems Bldg.	TL 10E	1	Y	
510	030	697950	0030	72,000	2179798	\$13,350,000	12/21/05	\$185.42	Quadrant Willows Corporate Ctr -	BP	1	Y	
510	020	943050	0130	90,115	2176911	\$9,475,000	12/16/05	\$105.14	95 RIVERSIDE PARK	MP	2	Y	
510	020	659980	0010	767,486	2176024	\$111,000,000	12/15/05	\$144.63	WESTPARK BLDG # 1 & 2	MP	16	Y	
510	030	928690	0110	166,024	2148683	\$34,050,000	08/11/05	\$205.09	WEST WILLOWS - SEAMED	MP	3	Y	
510	010	697920	0320	96,035	2130501	\$16,750,000	06/14/05	\$174.42	NORTH CREEK CORP CTR BLDG A, B,	R-AC, O	1	Y	
510	070	030150	0160	100,980	2113695	\$8,700,000	04/06/05	\$86.16	KEY BANK CALL CENTER	C3	1	Y	
510	020	720170	0080	35,573	2075175	\$3,800,000	10/07/04	\$106.82	WILLOWS 3 "BLDG C"	MP	1	Y	

510	050	644830	0040	248,244	2062209	\$38,000,000	08/10/04	\$153.08	EDDIE BAUER INC	OV	2	Y	
510	030	697950	0020	65,080	2054350	\$11,000,000	07/12/04	\$169.02	Quadrant Willows Corporate Ctr -	BP	1	Y	

***Improvement Sales for Area 510 with Sales Not Used***

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
510	050	644820	0010	228,036	2256787	\$77,864,000	12/20/06	\$341.45	REDMOND COMMERCE CENTER	OV	1	5	Full sales price not reported
510	050	644820	0010	228,036	2256786	\$16,250,000	12/20/06	\$71.26	REDMOND COMMERCE CENTER	OV	1	5	Full sales price not reported
510	050	644820	0010	228,036	2256785	\$4,886,000	12/20/06	\$21.43	REDMOND COMMERCE CENTER	OV	1	5	Full sales price not reported
510	020	943050	0130	49,765	2241759	\$9,000,000	10/06/06	\$180.85	95 RIVERSIDE PARK	MP	1	46	Non-representative sale. Sold with minor #0131. Buyer paid above market value due to seller financing and a guaranteed income stream for 10 years.
510	020	943050	0131	40,350	2241758	\$7,000,000	10/05/06	\$173.48	95 RIVERSIDE PARK	MP	1	46	Non-representative sale. Sold with minor #0130. Buyer paid above market value due to seller financing and a guaranteed income stream for 10 years.
510	010	272605	9106	70,082	2155349	\$13,600,000	09/14/05	\$194.06	WILLOWS 124 BLDG A	ISO	1	46	Non-representative sale. Buyer paid above market value due to seller financing.
510	070	172280	0285	40,029	2144289	\$6,748,500	08/02/05	\$168.59	HATHAWAY BLDG	IG2 U/8	3	15	No market exposure. Sold to tenant. Buyer paid above market value due to seller financing.
510	010	272605	9025	61,077	2143872	\$12,375,000	07/29/05	\$202.61	WILLOWS 124 BLDG B	ISO	1	46	Non-representative sale. Buyer paid above market value due to seller financing.
510	020	062310	0010	163,454	2130681	\$17,800,000	06/09/05	\$108.90	BEAR CK BUS PK-BLDG "B"	BP	2	34	Change of use after sale.
510	020	212406	9131	195,621	2091578	\$50,450,000	12/21/04	\$257.90	Sammamish Park Place - Bldg B	PO	2	46	Non-representative sale
510	010	389310	0921	60,209	2081222	\$4,365,000	10/29/04	\$72.50	COSTCO HOME OFFICE BLDG #1	LI	1	46	Non-representative sale
510	070	334040	3805	40,059	2058975	\$5,800,000	07/23/04	\$144.79	Sprint Communications	IM	1	1	Personal property included
510	030	272605	9106	131,159	2043361	\$13,800,000	05/28/04	\$105.22	WILLOWS 124 BLDG A	ISO	2	46	Non-representative sale

### High-Tech Exception Parcels

Account	Property Name	Comments:
342605-9037	INTERPOINT INC.	Excess Land
342605-9094	INTERPOINT - KISTLER-MORSE BLDG.	Excess Land
092304-9031	VACANT - INTERGATE WEST	Land Only
102304-9080	VACANT - INTERGATE EAST	Land Only
109910-0001	VACANT - TELEDESIC	Land Only
142505-9010	VACANT - MICROSOFT (FORMER SPACE LABS)	Land Only
142505-9014	VACANT - MICROSOFT (FORMER SPACE LABS)	Land Only
142505-9054	MICROSOFT	Assoc. Land
272605-9022	VACANT - PHYSIO CONTROL N. BLDG.	Land Only
983630-0450	VACANT - PHYSIO CONSTRO S. BLDG.	Land Only
342605-9112	VACANT - AEROJET GENERAL CORP	Land Only
342605-9113	VACANT - AEROJET GENERAL CORP	Land Only